EVANS BANCORP INC
Form 10-Q
August 03, 2017

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended June 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to ______

Commission file number 001-35021

EVANS BANCORP, INC.

(Exact name of registrant as specified in its charter)

New York	16-1332767
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)

One Grimsby Drive, Hamburg, NY 14075

(Address of principal executive offices) (Zip Code)

(716) 926-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed

since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if smaller reporting company)	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $.50 par value, 4,774,967 shares as of August 3, 2017

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EVANS BANCORP, INC. AND SUBSIDIARIES

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UNAUDITED CONSOLIDATED BALANCE SHEETS
JUNE 30, 2017 AND DECEMBER 31, 2016
(in thousands, except share and per share amounts)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 13,869	$ 12,503
Interest-bearing deposits at banks	1,776	581
Securities:		
Available for sale, at fair value (amortized cost: $141,510 at June 30, 2017; $95,810 at December 31, 2016)	141,225	95,222
Held to maturity, at amortized cost (fair value: $1,357 at June 30, 2017; $1,959 at December 31, 2016)	1,372	1,983
Federal Home Loan Bank common stock, at cost	1,727	2,185
Federal Reserve Bank common stock, at cost	1,908	1,546
Loans, net of allowance for loan losses of $14,178 at June 30, 2017 and $13,916 at December 31, 2016	962,315	928,596
Properties and equipment, net of accumulated depreciation of $17,641 at June 30, 2017 and $17,012 at December 31, 2016	10,960	11,310
Goodwill and intangible assets	8,609	8,406
Bank-owned life insurance	21,805	21,534
Other assets	17,280	16,843
TOTAL ASSETS	$ 1,182,846	$ 1,100,709
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	$ 207,348	$ 201,741
NOW	99,131	88,632
Savings	547,760	508,652
Time	164,817	140,949
Total deposits	1,019,056	939,974
Securities sold under agreement to repurchase	9,481	10,159
Other borrowings	14,600	28,200
Other liabilities	12,816	14,298
Junior subordinated debentures	11,330	11,330
Total liabilities	1,067,283	1,003,961
CONTINGENT LIABILITIES AND COMMITMENTS		

STOCKHOLDERS' EQUITY:		
Common stock, $.50 par value, 10,000,000 shares authorized; 4,773,496 and 4,302,504 shares issued at June 30, 2017 and December 31, 2016, respectively, and 4,773,005 and 4,300,634 outstanding at June 30, 2017 and December 31, 2016, respectively	2,389	2,153
Capital surplus	58,822	44,389
Treasury stock, at cost, 491 and 1,870 shares at June 30, 2017 and December 31, 2016, respectively	-	-
Retained earnings	56,492	52,630
Accumulated other comprehensive loss, net of tax	(2,140)	(2,424)
Total stockholders' equity	115,563	96,748
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,182,846	$ 1,100,709

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UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED JUNE 30, 2017 AND 2016
(in thousands, except share and per share amounts)

	Three Months Ended June 30,	
	2017	2016
INTEREST INCOME		
Loans	$ 10,646	$ 8,878
Interest-bearing deposits at banks	43	33
Securities:		
Taxable	563	561
Non-taxable	210	222
Total interest income	11,462	9,694
INTEREST EXPENSE		
Deposits	1,190	1,036
Other borrowings	50	51
Junior subordinated debentures	104	91
Total interest expense	1,344	1,178
NET INTEREST INCOME	10,118	8,516
PROVISION (CREDIT) FOR LOAN LOSSES	410	(376)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	9,708	8,892
NON-INTEREST INCOME		
Deposit service charges	428	403
Insurance service and fees	1,912	1,572
Gain on loans sold	52	29
Bank-owned life insurance	142	141
Loss on tax credit investment	(919)	(2,139)
Refundable state historic tax credit	647	1,508
Interchange fee income	379	340
Other	448	426
Total non-interest income	3,089	2,280
NON-INTEREST EXPENSE		
Salaries and employee benefits	6,030	5,467
Occupancy	775	740
Advertising and public relations	216	190
Professional services	550	656
Technology and communications	804	551
Amortization of intangibles	28	-
FDIC insurance	129	182

Other	785	933
Total non-interest expense	9,317	8,719
INCOME BEFORE INCOME TAXES	3,480	2,453
INCOME TAX PROVISION	862	450
NET INCOME	$ 2,618	$ 2,003
Net income per common share-basic	$ 0.55	$ 0.47
Net income per common share-diluted	$ 0.54	$ 0.46
Cash dividends per common share	$ -	$ -
Weighted average number of common shares outstanding	4,764,080	4,284,180
Weighted average number of diluted shares outstanding	4,880,454	4,346,599

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(in thousands, except share and per share amounts)

	Six Months Ended June 30,	
	2017	2016
INTEREST INCOME		
Loans	$ 20,892	$ 17,608
Interest-bearing deposits at banks	55	44
Securities:		
Taxable	999	938
Non-taxable	434	460
Total interest income	22,380	19,050
INTEREST EXPENSE		
Deposits	2,306	1,995
Other borrowings	108	101
Junior subordinated debentures	204	178
Total interest expense	2,618	2,274
NET INTEREST INCOME	19,762	16,776
(CREDIT) PROVISION FOR LOAN LOSSES	(25)	(168)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	19,787	16,944
NON-INTEREST INCOME		
Deposit service charges	818	846
Insurance service and fees	4,080	3,320
Gain on loans sold	70	44
Bank-owned life insurance	272	277
Loss on tax credit investment	(919)	(2,139)
Refundable state historic tax credit	647	1,508
Interchange fee income	723	658
Other	920	760
Total non-interest income	6,611	5,274
NON-INTEREST EXPENSE		
Salaries and employee benefits	11,746	10,981
Occupancy	1,550	1,439
Advertising and public relations	406	475
Professional services	1,152	1,236
Technology and communications	1,411	1,149
Amortization of intangibles	56	-
FDIC insurance	356	341
Other	1,695	1,626

Total non-interest expense	18,372	17,247
INCOME BEFORE INCOME TAXES	8,026	4,971
INCOME TAX PROVISION	2,262	1,254
NET INCOME	$ 5,764	$ 3,717
Net income per common share-basic	$ 1.23	$ 0.87
Net income per common share-diluted	$ 1.20	$ 0.86
Cash dividends per common share	$ 0.40	$ 0.38
Weighted average number of common shares outstanding	4,699,447	4,273,645
Weighted average number of diluted shares outstanding	4,819,375	4,337,299

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UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
THREE MONTHS ENDED JUNE 30, 2017 AND 2016
(in thousands)

	Three Months Ended June 30,			
	2017		2016	
NET INCOME		$ 2,618		$ 2,003
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gain on available-for-sale securities		3		260
Defined benefit pension plans:				
Amortization of prior service cost	5		5	
Amortization of actuarial loss	26		35	
Total		31		40
OTHER COMPREHENSIVE INCOME, NET OF TAX		34		300
COMPREHENSIVE INCOME		$ 2,652		$ 2,303

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SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(in thousands)

	Six Months Ended June 30,			
	2017		2016	
NET INCOME		$ 5,764		$ 3,717
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Unrealized gain on available-for-sale securities		190		909
Defined benefit pension plans:				
Amortization of prior service cost	15		10	
Amortization of actuarial loss	79		70	
Total		94		80
OTHER COMPREHENSIVE INCOME, NET OF TAX		284		989
COMPREHENSIVE INCOME		$ 6,048		$ 4,706

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UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2015	$ 2,132	$ 43,318	$ 47,616	$ (1,810)	$ -	$ 91,256
Net Income			3,717			3,717
Other comprehensive income				989		989
Cash dividends ($0.38 per common share)			(1,626)			(1,626)
Stock compensation expense		270				270
Excess tax benefit from stock-based compensation		15				15
Repurchased 3,280 shares in treasury stock					(80)	(80)
Issued 19,093 restricted shares	10	(10)				-
Issued 5,270 shares under Dividend Reinvestment Plan	3	129				132
Issued 5,166 shares in Employee Stock Purchase Plan	2	106				108
Issued 490 shares in stock option exercise		8				8
Reissued 3,021 restricted shares, net of forfeitures						-
Balance, June 30, 2016	$ 2,147	$ 43,836	$ 49,707	$ (821)	$ (80)	$ 94,789
Balance, December 31, 2016	$ 2,153	$ 44,389	$ 52,630	$ (2,424)	$ -	$ 96,748
Net Income			5,764			5,764
Other comprehensive income				284		284
Cash dividends ($0.40 per common share)			(1,902)			(1,902)
Stock compensation expense		295				295
Issued 440,000 shares in stock offering	220	13,922				14,142
Issued 16,283 restricted shares	8	(8)				-
Issued 3,253 shares under Dividend Reinvestment Plan	2	124				126
Issued 3,713 shares in Employee Stock Purchase Plan	2	124				126
	4	111				115

Issued 7,743 shares in stock option exercises						
Repurchased 9,218 shares in treasury stock					(342)	(342)
Reissued 10,597 shares in stock option exercises, net of forfeitures		(135)			342	207
Balance, June 30, 2017	$ 2,389	$ 58,822	$ 56,492	$ (2,140)	$ -	$ 115,563

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UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(in thousands)

	Six Months Ended June 30,	
	2017	2016
OPERATING ACTIVITIES:		
Interest received	$ 22,329	$ 18,778
Fees received	6,538	5,554
Interest paid	(2,587)	(2,249)
Cash paid to employees and vendors	(18,748)	(16,429)
Cash contributed to pension plan	(1,000)	(140)
Income taxes paid	(1,635)	(279)
Proceeds from sale of loans held for resale	5,376	3,514
Originations of loans held for resale	(5,532)	(3,477)
Net cash provided by operating activities	4,741	5,272
INVESTING ACTIVITIES:		
Available for sales securities:		
Purchases	(52,697)	(25,953)
Proceeds from maturities, calls, and payments	6,905	15,005
Held to maturity securities:		
Purchases	(35)	-
Proceeds from maturities, calls, and payments	646	95
Additions to properties and equipment	(264)	(1,119)
Purchase of tax credit investment	(811)	(703)
Insurance agency acquisitions	(275)	-
Net increase in loans	(32,925)	(78,823)
Net cash used in investing activities	(79,456)	(91,498)
FINANCING ACTIVITIES:		
Proceeds from (repayments of) short-term borrowings, net	(14,278)	9,690
Net increase in deposits	79,082	66,903
Dividends paid	(1,902)	(1,626)
Repurchase of treasury stock	(342)	(80)
Issuance of common stock	14,509	248
Reissuance of treasury stock	207	-
Net cash provided by financing activities	77,276	75,135

Net increase (decrease) in cash and cash equivalents	2,561	(11,091)
CASH AND CASH EQUIVALENTS:		
Beginning of period	13,084	22,621
End of period	$ 15,645	$ 11,530

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SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(in thousands)

	Six Months Ended June 30,	
	2017	2016
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 5,764	$ 3,717
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	875	647
Deferred tax expense	589	125
Provision (credit) for loan losses	(25)	(168)
Loss on tax credit investment	919	2,139
Refundable state historic tax credit	(647)	(1,508)
Gain on loans sold	(70)	(44)
Stock compensation expense	295	270
Proceeds from sale of loans held for resale	5,376	3,514
Originations of loans held for resale	(5,532)	(3,477)
Changes in assets and liabilities affecting cash flow:		
Other assets	(1,145)	(1,001)
Other liabilities	(1,658)	1,058
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 4,741	$ 5,272

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PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the "Company"), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the "Bank"), and the Bank's subsidiaries, Evans National Leasing, Inc. ("ENL"), Evans National Holding Corp. ("ENHC") and Suchak Data Systems, LLC ("SDS"); and (ii) Evans National Financial Services, LLC ("ENFS"), and ENFS's subsidiary, The Evans Agency, LLC ("TEA"), and TEA's subsidiaries, Frontier Claims Services, Inc. ("FCS") and ENB Associates Inc. ("ENBA"), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles ("GAAP") and with general practice within the industries in which it operates. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the "Company."

The results of operations for the three and six month periods ended June 30, 2017 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016 ("10-K"). The Company's significant accounting policies are disclosed in Note 1 to the 10-K.

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2. SECURITIES

The amortized cost of securities and their approximate fair value at June 30, 2017 and December 31, 2016 were as follows:

	June 30, 2017 (in thousands)			
	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 26,633	$ 73	$ (248)	$ 26,458
States and political subdivisions	32,531	478	(35)	32,974
Total debt securities	$ 59,164	$ 551	$ (283)	$ 59,432
Mortgage-backed securities:				
FNMA	$ 29,039	$ 118	$ (221)	$ 28,936
FHLMC	13,234	29	(95)	13,168
GNMA	2,363	27	(19)	2,371
SBA	10,681	18	(53)	10,646
CMO	27,029	62	(419)	26,672
Total mortgage-backed securities	$ 82,346	$ 254	$ (807)	$ 81,793
Total securities designated as available for sale	$ 141,510	$ 805	$ (1,090)	$ 141,225
Held to Maturity:				
Debt securities				
States and political subdivisions	$ 1,372	$ 7	$ (22)	$ 1,357
Total securities designated as held to maturity	$ 1,372	$ 7	$ (22)	$ 1,357

December 31, 2016

	(in thousands)			
	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	$ 12,958	$ 67	$ (153)	$ 12,872
States and political subdivisions	34,952	356	(166)	35,142
Total debt securities	$ 47,910	$ 423	$ (319)	$ 48,014
Mortgage-backed securities:				
FNMA	$ 14,694	$ 96	$ (230)	$ 14,560
FHLMC	3,544	32	(51)	3,525
GNMA	2,535	19	(21)	2,533
CMO	27,127	67	(604)	26,590
Total mortgage-backed securities	$ 47,900	$ 214	$ (906)	$ 47,208
Total securities designated as available for sale	$ 95,810	$ 637	$ (1,225)	$ 95,222
Held to Maturity:				
Debt securities				
States and political subdivisions	$ 1,983	$ 5	$ (29)	$ 1,959
Total securities designated as held to maturity	$ 1,983	$ 5	$ (29)	$ 1,959

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Available for sale securities with a total fair value of $125 million and $87 million at June 30, 2017 and December 31, 2016, respectively, were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The scheduled maturities of debt and mortgage-backed securities at June 30, 2017 and December 31, 2016 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

	June 30, 2017		December 31, 2016	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)		(in thousands)	
Debt securities available for sale:				
Due in one year or less	$ 4,283	$ 4,294	$ 2,869	$ 2,876
Due after one year through five years	28,103	28,330	30,171	30,214
Due after five years through ten years	20,722	20,773	12,166	12,133
Due after ten years	6,056	6,035	2,704	2,791
	59,164	59,432	47,910	48,014
Mortgage-backed securities available for sale	82,346	81,793	47,900	47,208
Total available for sale securities	$ 141,510	$ 141,225	$ 95,810	$ 95,222
Debt securities held to maturity:				
Due in one year or less	$ 174	$ 173	$ 780	$ 778
Due after one year through five years	284	280	289	283
Due after five years through ten years	814	810	814	805
Due after ten years	100	94	100	93
	1,372	1,357	1,983	1,959
Total held to maturity securities	$ 1,372	$ 1,357	$ 1,983	$ 1,959

Contractual maturities of the Company’s mortgage-backed securities generally exceed ten years; however, the effective lives may be significantly shorter due to prepayments of the underlying loans and due to the nature of these securities. The duration of the investment securities portfolio increased from 3.4 years at December 31, 2016 to 3.7

years at June 30, 2017.

Information regarding unrealized losses within the Company’s available for sale securities at June 30, 2017 and December 31, 2016 is summarized below. The securities are primarily U.S. government-guaranteed agency securities or municipal securities. All unrealized losses are considered temporary and are related to market interest rate fluctuations.

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	June 30, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available for Sale:						
Debt securities:						
U.S. government agencies	$ 16,662	$ (248)	$ -	$ -	$ 16,662	$ (248)
States and political subdivisions	4,550	(18)	731	(17)	5,281	(35)
Total debt securities	$ 21,212	$ (266)	$ 731	$ (17)	$ 21,943	$ (283)
Mortgage-backed securities:						
FNMA	$ 18,145	$ (221)	$ -	$ -	$ 18,145	$ (221)
FHLMC	11,587	(59)	881	(36)	12,468	(95)
GNMA	1,030	(17)	297	(2)	1,327	(19)
SBA	6,571	(53)	-	-	6,571	(53)
CMO	12,065	(132)	9,294	(287)	21,359	(419)
Total mortgage-backed securities	$ 49,398	$ (482)	$ 10,472	$ (325)	$ 59,870	$ (807)
Held to Maturity:						
Debt securities:						
States and political subdivisions	$ 265	$ (1)	$ 642	$ (21)	$ 907	$ (22)
Total temporarily impaired securities	$ 70,875	$ (749)	$ 11,845	$ (363)	$ 82,720	$ (1,112)

	December 31, 2016					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					

Available for Sale:						
Debt securities:						
U.S. government agencies	$ 6,847	$ (153)	$ -	$ -	$ 6,847	$ (153)
States and political subdivisions	16,895	(146)	731	(20)	17,626	(166)
Total debt securities	$ 23,742	$ (299)	$ 731	$ (20)	$ 24,473	$ (319)
Mortgage-backed securities:						
FNMA	$ 9,577	$ (230)	$ -	$ -	$ 9,577	$ (230)
FHLMC	1,728	(8)	988	(43)	2,716	(51)
GNMA	1,046	(17)	309	(4)	1,355	(21)
CMO	19,745	(569)	1,166	(35)	20,911	(604)
Total mortgage-backed securities	$ 32,096	$ (824)	$ 2,463	$ (82)	$ 34,559	$ (906)
Held to Maturity:						
Debt securities:						
States and political subdivisions	$ 863	$ (3)	$ 706	$ (26)	$ 1,569	$ (29)
Total temporarily impaired securities	$ 56,701	$ (1,126)	$ 3,900	$ (128)	$ 60,601	$ (1,254)

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Management has assessed the securities available for sale in an unrealized loss position at June 30, 2017 and December 31, 2016 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

The Company has not recorded any other-than-temporary impairment ("OTTI") charges as of June 30, 2017 and did not record any OTTI charges during 2016. The credit worthiness of the Company's portfolio is largely reliant on the ability of U.S. government sponsored agencies such as FHLB, Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. The stable past performance is not a guarantee for similar performance of the Company's securities portfolio in future periods.

3. FAIR VALUE MEASUREMENTS

Fair value is defined in ASC Topic 820 "Fair Value Measurements" as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurements:

- Level 1 inputs are quoted prices for identical instruments in active markets;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs.

Observable market data should be used when available.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents, for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis as of June 30, 2017 and December 31, 2016, respectively:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
June 30, 2017				
Securities available-for-sale:				
U.S. government agencies	$ -	$ 26,458	$ -	$ 26,458
States and political subdivisions	-	32,974	-	32,974
Mortgage-backed securities	-	81,793	-	81,793
Mortgage servicing rights	-	-	555	555
December 31, 2016				
Securities available-for-sale:				
U.S. government agencies	$ -	$ 12,872	$ -	$ 12,872
States and political subdivisions	-	35,142	-	35,142
Mortgage-backed securities	-	47,208	-	47,208
Mortgage servicing rights	-	-	527	527

Securities available for sale

Fair values for securities are determined using independent pricing services and market-participating brokers. The Company's independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, model processes, such as the Option Adjusted Spread model, are used to assess interest rate impact and develop prepayment scenarios. The models and the process take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The company's service provider may occasionally determine that it does not have sufficient verifiable information to value a particular security. In these cases the Company will utilize valuations from another pricing service.

Management believes that it has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control. On a quarterly basis, the Company reviews changes in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Company has its entire security portfolio priced by a second pricing service to determine consistency with another market evaluator. If, during the Company's review or when comparing with another servicer, a material difference between pricing evaluations were to exist, the Company would submit an inquiry to the service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than the initial evaluation it can submit a challenge for a change to that security's valuation.

Securities available for sale are classified as Level 2 in the fair value hierarchy as the valuation provided by the third-party provider uses observable market data.

Mortgage servicing rights

Mortgage servicing rights ("MSRs") do not trade in an active, open market with readily observable prices. Accordingly, the Company obtains the fair value of the MSRs using a third-party pricing provider. The provider determines the fair value by discounting projected net servicing cash flows of the remaining servicing portfolio. The valuation model used by the provider considers market loan prepayment predictions and other economic factors which management considers to be significant unobservable inputs. The fair value of MSRs is mostly affected by changes in mortgage interest rates since rate changes cause the loan prepayment acceleration factors to increase or decrease. Management has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of MSRs to enable management to maintain an appropriate system of internal control. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy as the valuation is model driven and primarily based on unobservable inputs.

The following table summarizes the changes in fair value for mortgage servicing rights during the three month periods ended June 30, 2017 and 2016, respectively:

	Three months ended June 30,	
(in thousands)	2017	2016
Mortgage servicing rights -April 1	$ 564	$ 496
Losses included in earnings	(32)	(56)
Additions from loan sales	23	26
Mortgage servicing rights - June 30	$ 555	$ 466

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	Six months ended June 30,	
(in thousands)	2017	2016
Mortgage servicing rights - January 1	$ 527	$ 557
Losses included in earnings	(21)	(125)
Additions from loan sales	49	34
Mortgage servicing rights - June 30	$ 555	$ 466

Quantitative information about the significant unobservable inputs used in the fair value measurement of MSRs at the respective dates is as follows:

	June 30, 2017	December 31, 2016
Servicing fees	0.25 %	0.25 %
Discount rate	9.52 %	9.52 %
Prepayment rate (CPR)	8.57 %	8.12 %

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis at June 30, 2017 and December 31, 2016:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
June 30, 2017				
Collateral dependent impaired loans	$ -	$ -	$ 17,575	$ 17,575
December 31, 2016				
Collateral dependent impaired loans	$ -	$ -	$ 13,114	$ 13,114

Collateral dependent impaired loans

The Company evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company's internal loan rating scale to a 5 (special mention) or a 6 (substandard) depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are either graded a 6 or 7 on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Impaired loans had a gross value of $19.5 million, with an allowance for loan loss of $1.9 million, at June 30, 2017 compared with $15.1 million and $2.0 million, respectively, at December 31, 2016.

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FAIR VALUE OF FINANCIAL INSTRUMENTS

At each of June 30, 2017 and December 31, 2016, the estimated fair values of the Company’s financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis, were as follows:

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Level 1:				
Cash and cash equivalents	$ 15,645	$ 15,645	$ 13,084	$ 13,084
Level 2:				
Available for sale securities	141,225	141,225	95,222	95,222
FHLB and FRB stock	3,635	3,635	3,731	3,731
Level 3:				
Held to maturity securities	1,372	1,357	1,983	1,959
Loans, net	962,315	951,510	928,596	945,998
Mortgage servicing rights	555	555	527	527
Financial liabilities:				
Level 1:				
Demand deposits	$ 207,348	$ 207,348	$ 201,741	$ 201,741
NOW deposits	99,131	99,131	88,632	88,632
Savings deposits	547,760	547,760	508,652	508,652
Level 2:				
Securities sold under agreement to repurchase	9,481	9,481	10,159	10,159
Other borrowed funds	14,600	14,548	28,200	28,152
Junior subordinated debentures	11,330	11,330	11,330	11,330
Level 3:				
Time deposits	164,817	165,934	140,949	141,758

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and Cash Equivalents. For these short-term instruments, the carrying amount is a reasonable estimate of fair value. “Cash and Cash Equivalents” includes interest-bearing deposits at other banks.

FHLB and FRB stock. The carrying value of Federal Home Loan Bank (“FHLB”) and Federal Reserve Bank (“FRB”) stock, which are non-marketable equity investments, approximate fair value.

As a member of the FHLB System, the Bank is required to hold stock in FHLBNY. The Company regularly evaluates investments in FHLBNY for impairment, considering liquidity, operating performance, capital position, stock repurchase and dividend history. As of June 30, 2017, the Bank’s investment in FHLBNY stock was not impaired.

The Bank, as a member of the FRB system, is currently required to purchase and hold shares of capital stock in the FRB in an amount equal to 6% of its capital and surplus. Based on the current capital adequacy and liquidity position of the FRB, management believes there is no impairment in the Company’s investment at June 30, 2017.

Securities Held to Maturity. The Company holds certain municipal bonds as held-to-maturity. These bonds are generally small in dollar amount and are issued only by certain local municipalities within the Company’s market area. The original terms are negotiated directly and on an individual basis consistent with our loan and credit guidelines. These bonds are not traded on the open market and management intends to hold the bonds to maturity. The fair value of held-to-maturity securities is estimated by discounting the future cash flows using the current rates at which similar agreements would be made with municipalities with similar credit ratings and for the same remaining maturities.

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Loans Receivable. The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, net of the appropriate portion of the allowance for loan losses. For variable rate loans, the carrying amount is a reasonable estimate of fair value. This fair value calculation is not necessarily indicative of the exit price, as defined in ASC 820.

Deposits. The fair value of demand deposits, negotiable order of withdrawal ("NOW") accounts, muni-vest accounts and regular savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Junior Subordinated Debentures. There is no active market for the Company's debentures and there have been no issuances of similar instruments in recent years. The Company looked at a market bond index to estimate a discount margin to value the debentures. The discount margin was very similar to the spread to LIBOR established at the issuance of the debentures. As a result, the Company determined that the fair value of the adjustable-rate debentures approximates their face amount.

Securities Sold Under Agreement to Repurchase. The fair value of the securities sold under agreement to repurchase approximates its carrying value as the repurchase agreements are one day agreements.

Other Borrowed Funds. The fair value of the short-term portion of other borrowed funds approximates its carrying value. The fair value of the long-term portion of other borrowed funds is estimated using a discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

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4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loan Portfolio Composition

The following table presents selected information on the composition of the Company's loan portfolio as of the dates indicated:

	June 30, 2017	December 31, 2016
Mortgage loans on real estate:	(in thousands)	
Residential mortgages	$ 123,734	$ 118,542
Commercial and multi-family	477,216	462,385
Construction-Residential	2,433	2,540
Construction-Commercial	96,640	93,240
Home equities	66,144	66,234
Total real estate loans	766,167	742,941
Commercial and industrial loans	207,769	197,371
Consumer and other loans	1,502	1,417
Net deferred loan origination costs	1,055	783
Total gross loans	976,493	942,512
Allowance for loan losses	(14,178)	(13,916)
Loans, net	$ 962,315	$ 928,596

The Bank sells certain fixed rate residential mortgages to FNMA while maintaining the servicing rights for those mortgages. In the three month period ended June 30, 2017, the Bank sold mortgages to FNMA totaling $2.5 million, compared with $2.6 million in the three month period ended June 30, 2016. During the six month periods ended June 30, 2017 and 2016, the Bank sold $5.3 million and $3.5 million, respectively, to FNMA. At June 30, 2017, the Bank had a loan servicing portfolio principal balance of $77 million upon which it earned servicing fees, compared with $76 million at December 31, 2016. The value of the mortgage servicing rights for that portfolio was $0.6 million at June 30, 2017 and $0.5 million at December 31, 2016. At June 30, 2017 there were $0.5 million in residential mortgages held for sale compared with $0.3 million at December 31, 2016. The Company has never been contacted by FNMA to repurchase any loans due to improper documentation or fraud.

As noted in Note 1, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016. Disclosures related to the basis for accounting for loans, the method for recognizing interest income on loans, the policy for placing loans on nonaccrual status and the subsequent recording of payments and resuming accrual of interest, the policy for determining past due status, a description of the Company's accounting policies and methodology used to estimate the allowance for loan losses, the policy for charging-off loans, the accounting policies for impaired loans, and more descriptive information on the Company's credit risk ratings are all contained in the Notes to the Audited Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Unless otherwise noted in this Form 10-Q, the policies and methodology described in the Annual Report for the year ended December 31, 2016 are consistent with those utilized by the Company in the three and six month periods ended June 30, 2017.

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Credit Quality Indicators

The Bank monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators ("CQI"). The primary CQI for its commercial mortgage and commercial and industrial ("C&I") portfolios is the individual loan's credit risk rating. The following list provides a description of the credit risk ratings that are used internally by the Bank when assessing the adequacy of its allowance for loan losses:

- 1-3-Pass
- 4-Watch
- 5-O.A.E.M. (Other Assets Especially Mentioned) or Special Mention
- 6-Substandard
- 7-Doubtful
- 8-Loss

The Company's consumer loans, including residential mortgages and home equities, are not individually risk rated or reviewed in the Company's loan review process. Unlike commercial customers, consumer loan customers are not required to provide the Company with updated financial information. Consumer loans also carry smaller balances. Given the lack of updated information after the initial underwriting of the loan and small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans. However, once a consumer loan is identified as impaired, it is individually evaluated for impairment.

The following tables provide data, at the class level, of credit quality indicators of certain loans for the dates specified:

June 30, 2017
(in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
1-3	$ 75,063	$ 374,031	$ 449,094	$ 139,594
4	17,398	81,436	98,834	55,030

5	-	12,187	12,187	7,136
6	4,179	9,562	13,741	5,254
7	-	-	-	755
Total	$ 96,640	$ 477,216	$ 573,856	$ 207,769

December 31, 2016
(in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
1-3	$ 82,520	$ 372,235	$ 454,755	$ 121,414
4	6,541	73,655	80,196	59,117
5	-	12,506	12,506	12,623
6	4,179	3,989	8,168	3,404
7	-	-	-	813
Total	$ 93,240	$ 462,385	$ 555,625	$ 197,371

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Past Due Loans

The following tables provide an analysis of the age of the recorded investment in loans that are past due as of the dates indicated:

June 30, 2017
(in thousands)

	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans
Commercial and industrial	$ 3,054	$ 602	$ 1,743	$ 5,399	$ 202,370	$ 207,769	$ 2	$ 2,651
Residential real estate:								
Residential	-	90	735	825	122,909	123,734	-	1,003
Construction	-	-	-	-	2,433	2,433	-	-
Commercial real estate:								
Commercial	3,576	1,417	3,119	8,112	469,104	477,216	1,288	3,110
Construction	4,044	61	4,643	8,748	87,892	96,640	464	4,179
Home equities	699	7	580	1,286	64,858	66,144	-	1,194
Consumer and other	23	-	-	23	1,479	1,502	-	10
Total Loans	$ 11,396	$ 2,177	$ 10,820	$ 24,393	$ 951,045	$ 975,438	$ 1,754	$ 12,147

Note: Loan balances do not include $1.1 million in net deferred loan origination costs as of June 30, 2017.

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December 31, 2016
(in thousands)

	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans
Commercial and industrial	$ 6,772	$ 2,966	$ 1,150	$ 10,888	$ 186,483	$ 197,371	$ -	$ 3,106
Residential real estate:								
Residential	868	123	567	1,558	116,984	118,542	-	862
Construction	-	-	-	-	2,540	2,540	-	-
Commercial real estate:								
Commercial	6,319	1,522	2,357	10,198	452,187	462,385	483	1,874
Construction	257	-	4,417	4,674	88,566	93,240	239	4,178
Home equities	481	119	679	1,279	64,955	66,234	-	1,261
Consumer and other	15	10	5	30	1,387	1,417	-	17
Total Loans	$ 14,712	$ 4,740	$ 9,175	$ 28,627	$ 913,102	$ 941,729	$ 722	$ 11,298

Note: Loan balances do not include $783 thousand in net deferred loan origination costs as of December 31, 2016.

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Allowance for loan losses

The following tables present the activity in the allowance for loan losses according to portfolio segment for the six month periods ended June 30, 2017 and 2016:

June 30, 2017

(in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Beginning balance	$ 4,813	$ 7,890	$ 96	$ 769	$ 348	$ 13,916
Charge-offs	(33)	-	(33)	-	-	(66)
Recoveries	331	-	21	-	1	353
Provision (Credit)	(141)	9	20	63	24	(25)
Ending balance	$ 4,970	$ 7,899	$ 104	$ 832	$ 373	$ 14,178
Allowance for loan losses:						
Ending balance:						
Individually evaluated for impairment	$ 681	$ 1,189	$ 42	$ 1	$ 2	$ 1,915
Collectively evaluated for impairment	4,289	6,710	62	831	371	12,263
Total	$ 4,970	$ 7,899	$ 104	$ 832	$ 373	$ 14,178
Loans:						
Ending balance:						
Individually evaluated for impairment	$ 2,665	$ 12,298	$ 42	$ 2,834	$ 1,651	$ 19,490
Collectively evaluated for impairment	205,104	561,558	1,460	123,333	64,493	955,948
Total	$ 207,769	$ 573,856	$ 1,502	$ 126,167	$ 66,144	$ 975,438

* Includes construction loans

Note: Loan balances do not include $1.1 million in net deferred loan origination costs as of June 30, 2017.

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June 30, 2016

(in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Beginning balance	$ 4,383	$ 7,135	$ 85	$ 909	$ 371	$ 12,883
Charge-offs	(33)	-	(23)	-	-	(56)
Recoveries	55	51	7	-	1	114
Provision (Credit)	(210)	122	32	(146)	34	(168)
Ending balance	$ 4,195	$ 7,308	$ 101	$ 763	$ 406	$ 12,773
Allowance for loan losses:						
Ending balance:						
Individually evaluated for impairment	$ 324	$ 1,128	$ 40	$ 3	$ 18	$ 1,513
Collectively evaluated for impairment	3,871	6,180	61	760	388	11,260
Total	$ 4,195	$ 7,308	$ 101	$ 763	$ 406	$ 12,773
Loans:						
Ending balance:						
Individually evaluated for impairment	$ 4,985	$ 9,261	$ 40	$ 2,461	$ 1,614	$ 18,361
Collectively evaluated for impairment	174,225	490,138	1,407	106,476	61,928	834,174
Total	$ 179,210	$ 499,399	$ 1,447	$ 108,937	$ 63,542	$ 852,535

* Includes construction loans

Note: Loan balances do not include $771 thousand in net deferred loan origination costs as of June 30, 2016.

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The following tables present the activity in the allowance for loan losses according to portfolio segment for the three month periods ended June 30, 2017 and 2016:

June 30, 2017

($ in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Beginning balance	$ 3,963	$ 8,198	$ 135	$ 919	$ 364	$ 13,579
Charge-offs	-	-	(5)	-	-	(5)
Recoveries	184	-	9	-	1	194
Provision (Credit)	823	(299)	(35)	(87)	8	410
Ending balance	$ 4,970	$ 7,899	$ 104	$ 832	$ 373	$ 14,178

June 30, 2016

($ in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer and Other	Residential Mortgages*	Home Equities	Total
Allowance for loan losses:						
Beginning balance	$ 4,580	$ 7,442	$ 93	$ 696	$ 308	$ 13,119
Charge-offs	(20)	-	(16)	-	-	(36)
Recoveries	48	13	4	-	1	66
Provision (Credit)	(413)	(147)	20	67	97	(376)
Ending balance	$ 4,195	$ 7,308	$ 101	$ 763	$ 406	$ 12,773

*Includes construction loans

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Impaired Loans

The following tables provide data, at the class level, for impaired loans as of the dates indicated:

	At June 30, 2017					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:	(in thousands)					
Commercial and industrial	$ 203	$ 251	$ -	$ 216	$ 11	$ 1
Residential real estate:						
Residential	2,668	2,758	-	2,610	20	38
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,371	2,461	-	2,473	66	21
Construction	-	-	-	-	-	-
Home equities	1,633	1,733	-	1,672	32	10
Consumer and other	-	-	-	-	-	-
Total impaired loans	$ 6,875	$ 7,203	$ -	$ 6,971	$ 129	$ 70

	At June 30, 2017					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(in thousands)					
	$ 2,462	$ 2,715	$ 681	$ 2,522	$ 78	$ 6

Commercial and industrial						
Residential real estate:						
Residential	166	169	1	167	4	1
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	5,748	5,777	360	5,795	27	108
Construction	4,179	4,201	829	4,179	104	-
Home equities	18	19	2	17	1	-
Consumer and other	42	61	42	39	1	1
Total impaired loans	$ 12,615	$ 12,942	$ 1,915	$ 12,719	$ 215	$ 116

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	At June 30, 2017					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Total:	(in thousands)					
Commercial and industrial	$ 2,665	$ 2,966	$ 681	$ 2,738	$ 89	$ 7
Residential real estate:						
Residential	2,834	2,927	1	2,777	24	39
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	8,119	8,238	360	8,268	93	129
Construction	4,179	4,201	829	4,179	104	-
Home equities	1,651	1,752	2	1,689	33	10
Consumer and other	42	61	42	39	1	1
Total impaired loans	$ 19,490	$ 20,145	$ 1,915	$ 19,690	$ 344	$ 186

	At December 31, 2016					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:	(in thousands)					
Commercial and industrial	$ 1,304	$ 1,604	$ -	$ 1,455	$ 125	$ 51
Residential real estate:						
Residential	2,513	2,720	-	2,542	39	78
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,123	2,168	-	2,181	33	89

Construction	257	257	-	404	2	28
Home equities	1,559	1,621	-	1,606	51	30
Consumer and other	-	-	-	-	-	-
Total impaired loans	$ 7,756	$ 8,370	$ -	$ 8,188	$ 250	$ 276

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	At December 31, 2016					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(in thousands)					
Commercial and industrial	$ 1,844	$ 1,913	$ 492	$ 1,898	$ 62	$ 53
Residential real estate:						
Residential	71	72	1	72	2	1
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	1,054	1,083	296	1,062	50	-
Construction	4,179	4,201	1,175	4,180	194	-
Home equities	194	206	20	195	9	1
Consumer and other	43	68	43	45	3	3
Total impaired loans	$ 7,385	$ 7,543	$ 2,027	$ 7,452	$ 320	$ 58

	At December 31, 2016					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Total:	(in thousands)					
Commercial and industrial	$ 3,148	$ 3,517	$ 492	$ 3,353	$ 187	$ 104
Residential real estate:						
Residential	2,584	2,792	1	2,614	41	79
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	3,177	3,251	296	3,243	83	89
Construction	4,436	4,458	1,175	4,584	196	28
Home equities	1,753	1,827	20	1,801	60	31
	43	68	43	45	3	3

Consumer and other						
Total impaired loans	$ 15,141	$ 15,913	$ 2,027	$ 15,640	$ 570	$ 334

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Troubled debt restructurings

The Company had $9.0 million and $5.1 million in loans that were restructured in a troubled debt restructuring ("TDR") at June 30, 2017 and December 31, 2016, respectively. Of those balances, $1.7 million and $1.2 million were in non-accrual status at June 30, 2017 and December 31, 2016, respectively. Any TDR that is placed on non-accrual is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. All of the Company's restructurings were allowed in an effort to maximize its ability to collect on loans where borrowers were experiencing financial difficulty.

The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan's original effective interest rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired. As of June 30, 2017, there were no commitments to lend additional funds to debtors owing on loans whose terms have been modified in TDRs.

The following tables summarize the loans that were classified as troubled debt restructurings as of the dates indicated:

	June 30, 2017 (in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	$ 692	$ 679	$ 13	$ 135
Residential real estate:				
Residential	2,065	233	1,832	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi-family	5,593	583	5,010	150
Construction	-	-	-	-
Home equities	630	174	456	-
Consumer and other	32	-	32	32
Total troubled restructured loans	$ 9,012	$ 1,669	$ 7,343	$ 317

	December 31, 2016 (in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance

Commercial and industrial	$ 574	$ 532	$ 42	$ 147
Residential real estate:				
Residential	1,949	227	1,722	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi-family	1,617	313	1,304	-
Construction	257	-	257	-
Home equities	667	175	492	1
Consumer and other	26	-	26	26
Total troubled restructured loans	$ 5,090	$ 1,247	$ 3,843	$ 174

The Company's TDRs have various agreements that involve deferral of principal payments, or interest-only payments, for a period (usually 12 months or less) to allow the customer time to improve cash flow or sell the property. Other common concessions leading to the designation of a TDR are lines of credit that are termed-out and/or extensions of maturities at rates that are less than the prevailing market rates given the risk profile of the borrower.

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The following tables show the data for TDR activity by the type of concession granted to the borrower for the three month and six periods ended June 30, 2017 and 2016:

	Three months ended June 30, 2017 (Recorded Investment in thousands)			Three months ended June 30, 2016 (Recorded Investment in thousands)		
Troubled Debt Restructurings by Type of Concession	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial	-	$ -	$ -	-	$ -	$ -
Residential Real Estate & Construction	-	-	-	-	-	-
Commercial Real Estate & Construction	-	-	-	-	-	-
Home Equities: Extension of maturity and interest rate reduction	1	20	20	-	-	-
Consumer and other loans	-	-	-	-	-	-

	Six months ended June 30, 2017 (Recorded Investment in thousands)			Six months ended June 30, 2016 (Recorded Investment in thousands)		
Troubled Debt Restructurings by Type of Concession	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment

Commercial and Industrial:						
Extension of maturity	-	$ -	$ -	1	$ 24	$ 24
Term-out line of credit	1	180	180	1	20	20
Residential Real Estate & Construction:						
Extension of maturity	-	-	-	1	95	95
Commercial Real Estate & Construction:						
Extension of maturity	3	5,073	5,073	-	-	-
Home Equities:						
Extension of maturity and interest rate reduction	1	20	20	-	-	-
Consumer loans	-	-	-	-	-	-

The general practice of the Bank is to work with borrowers so that they are able to repay their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan is determined to be uncollectible, the loan will be charged-off. There were no loans which were classified as TDRs during the previous 12 months which defaulted during each of the three month and six month periods ended June 30, 2017 and 2016, respectively.

5. COMMON EQUITY AND EARNINGS PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period. For the three and six month periods ended June 30, 2017, the Company had an average of 116,374 and 119,928 dilutive shares outstanding, respectively. The Company had an average of 62,419 and 63,654 dilutive shares outstanding for the three and six months periods ended June 30, 2016, respectively.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. For the three and six month periods ended June 30, 2017, there was an average of 23,020 and